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SUBJECT: TRANSPARENCY OF BUDGETS/MILITARY SPENDING

REF: STATE 239929

1. This message responds to action request (REFTEL).

2. Q: How (or are) military expenditures audited?

A: Each branch of the Venezuelan Armed Forces (army, navy, air force, and national guard) has its own budget and planning office. The services submit proposed expenses and acquisition planning documents to a Ministry of Defense budget office. The Defense Ministry in turn presents the armed forces budget to the Ministry of Finance's national budget office and to President Hugo Chavez for review. The National Assembly also approves the budget.

3. Q: Who audits military expenditures?

A: The Defense Ministry's budget office performs audits of each military service. The Armed Forces Inspector General oversees the process.

4. Q: To whom are the audits reported?

A: Ultimately, the military reports its audits to President Chavez. Chavez micromanages the military budget with the assistance of a close circle of military advisors. The Defense Minister and the Finance Minister also receive reports.

5. Q: Are any of the people who receive the audits civilian authorities?

A: Hugo Chavez is an elected, civilian president. The Defense Ministry's budget office contains some civilians. The Finance Minister is a civilian, but an army general currently heads the ministry's national budget office. The Defense Minister and his second-in-command, the Inspector General, are active duty military officers.

6. Q: Is there an existing framework for conducting annual audits of military expenditures?

A: Yes.

7. Q: Is there legislation or an instituted government policy that requires annual audits of receipts that fund the military?

A: While not explicitly requiring an audit, the Venezuelan constitution requires the executive branch to present to the National Assembly the "rendering of (budgetary) accounts" within six months after the end of each year. To post's knowledge, however, the government has never disciplined notoriously corrupt elements of the armed forces for failing to account for expenditures outlined in the budget.

8. Q: Is control over the audit process effective?

A: The President wields absolute control over the audit process; however, he has approved budgets without adequately addressing problems of corruption and off-budget expenditures.

9. Q: What are the deficiencies of the audit process?

A: Three major problems complicate auditing the military budget:

-- Because of frequent policy changes and exogenous factors, proposed military budgets poorly demonstrate actual expenditures. The militarization of the Venezuelan government and society has swollen the responsibilities of the armed forces at a pace faster than the official budget. For example, the GOV has begun to rely increasingly on the military to carry out health, education, and poverty reduction programs; therefore, each year's expenditures can differ significantly from the previous year's budget submission. Economic factors, such as inflation and the price of oil, also tend to demand revisions to budget

provisions.

-- A significant portion of the budget remains hidden and exempt from audit. The official budget did not grow significantly after Chavez imposed regulations in 2001 requiring the disclosure of over three billion dollars of off-line funds.

-- Corrupt contracts tend to enlarge budget inaccuracies, and the government has ignored and even detained some whistleblowers.

110. Q: Are these deficiencies intentional or due to capacity constraints?

A: Both. Economic factors and an institutional lack of expertise have made the budgetary process more difficult for the GOV. Nevertheless, the administration also has ignored opportunities to tackle corruption and to make the process more transparent.

111. Q: Does the country's defense budget include the armed forces and security forces?

A: Yes. Although the budget does not include civilian police, law enforcement is a major part of the mission of the Venezuelan National Guard.

112. Q: Are there significant off-budget military receipts?

A: The military budget includes most significant line-item expenditures. The President's military unit (Casa Militar), however, has an account of unknown size that remains separate from the audited Defense Ministry budget. The President also uses an undisclosed amount of "discretionary" petroleum revenue for expenses such as bonuses, pensions, military hardware, and other spot payments.

113. Q: Are productive development objectives prioritized over unproductive (e.g., military) objectives?

A: The government has prioritized poverty reduction over traditional military expenditures. In fact, the military's mission has shifted towards social development projects at the expense of its national defense role.

114. Q: Is there a mechanism for a debate over budget priorities, such as through a legislative assembly?

A: The Ministry of Defense presents the completed budget to the National Assembly, which is constitutionally authorized to alter budgetary entries.  
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